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SOUTH VIETNAM: Vice President Ky's public threat to use force to oust President Thieu seems to be part of his campaign to force the President to change his election plans.

Ky told members of the foreign press corps yesterday that he would destroy Thieu and "his clique" even if the vice president had to sacrifice his life to do it. Ky asserted that there is great unrest among the people and the armed forces, and questioned the loyalty of many generals to Thieu. The vice president gave his threat a sense of immediacy by claiming that many unpredictable events could take place, "perhaps tonight or tomorrow."

Ky has attacked Thieu in strong terms in the past, but his latest remarks go much further and virtually threaten a coup attempt. He clearly is genuinely angry and is trying to generate more positive opposition to Thieu. He still seems to lack significant military support, however, and he would be unlikely to disclose his intention publicly if he really planned to take military action. One of the vice president's chief political lieutenants is currently in the US, and Ky's remarks may have been intended partly for US consumption. He may hope that by further aggravating the South Vietnamese political climate, he can influence the US to persuade Thieu to postpone and reorganize the presidential election.

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C USSR-CHINA: The sharp attack on China in today's Pravda minces no words in indicating that Moscow sees malicious intent in Peking's invitation to President Nixon.

The lengthy article by "I. Alexandrov"--a pseudonym employed to indicate high-level party endorsement--is Moscow's strongest public thrust at China in over a year. It sets the Chinese bid to the President in the context of Peking's over-all foreign policy--which it brands as primarily motivated by "anti-Sovietism." It expresses displeasure with a recent Chinese theoretical article that rationalized the move toward the US in terms of isolating the "primary enemy." It labels Chou En-lai's citation of a "threat from the north" in his recent interview with James Reston as "mythical," pointedly noting that the USSR has no territorial claims against China.

A substantial section of the article attacks Peking's attempts to undermine Soviet domination of Eastern Europe. Although avoiding the stronger condemnations of Peking's alleged efforts to establish an "anti-Soviet axis" in the Balkans that have appeared recently in the East European press, it accuses the Chinese of "seeking to set socialist states at loggerheads." One principal theme in the article is the exhortation that Communists should "enhance in every way their vigilance against Maoism."

The article restates Soviet intentions to seek better relations with China, but unlike some pronouncements prior to the announcement of the President's visit, carries no note of conciliation. Indeed, the article seems somewhat defensive in justifying Kremlin policy toward Peking, suggesting that the leadership may be sensitive to criticism that it has been too easy on Peking.

"Alexandrov's" treatment of China stands in marked contrast to recent Soviet handling of US motivations for improving relations with China.]

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C Pravda on 2 September, for example, presented a relatively balanced account of Secretary Rogers' speech to the American Legion, specifically noting his assurance that US China policy does not mean any lessening of interest in serious negotiations with the USSR. Such treatment suggests that US efforts to reassure Moscow on the visit are having some success and indicates that Moscow does not want to damage its wide-ranging contacts with Washington through harsh polemics.

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INTERNATIONAL MONETARY DEVELOPMENTS: Europeans are increasingly taking the position that an over-all adjustment of exchange parities should be accompanied by some increase in the price of gold.

Various Dutch, British, and German officials have recently expressed this idea--perhaps as a sop to the French. For the French, this position reflects long-standing views on what is required. A high Dutch Finance Ministry official claims that a "modest"--perhaps five-percent--increase could be decisive in fostering a joint Common Market adjustment offer. Some British Treasury officials also are taking the line that a small increase in the official gold price might facilitate monetary reform. German Bundesbank Vice President Emminger, at last week's monetary symposium in Austria, likewise indicated that although the economic rationale for a gold-price increase has been questioned, it is necessary as a political gesture.

Early removal of the US import surcharge remains a major aim. In an argument which may be increasingly used, the Belgian Treasury director has referred to the difficulty of effecting parity changes while the surcharge persists and distorts judgment on what the rates should be.

In the view of some European officials, there will continue to be uncertainty about the proper response to the US program until it is clear what the US really expects. According to a Dutch official, a definitive statement is needed most urgently on what the US wants in the monetary, commercial, and burden-sharing fields and what it is prepared to give "in addition to elimination of the surcharge." The Belgian finance minister alluded in Parliament this week to the "serious political implications" of the apparent US desire for solutions of problems going far beyond the confines of a new international monetary system.

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Despite the emergence of common themes on the European side, there are still no signs of a reconciliation of French differences with the other European Community members. The Italians--who have also called for a devaluation of the dollar to accompany other currency revaluations--will meet separately with the Germans and French this weekend at the ministerial level. Paris, however, is presumably still resisting any common Community position that would require revaluing the franc. France appears determined not to lose the edge in intra-European trade it gains from the present upward floating of German and Dutch currencies.

* * * *

On the basis of monthly data now available, it appears that European central banks absorbed record amounts of dollars during August. British reserves increased by \$937 million despite debt repayments of \$626 million. In France the increase was \$1.08 billion. The French increase was a product of the Bank of France supporting the "commercial" franc, which has hovered near its floor since the introduction of the two-tier market. In Tokyo, the Bank of Japan reportedly continued to buy dollars heavily yesterday to restrict the yen's appreciation.

In another development, Canadian Prime Minister Trudeau plans to take special measures to assist industries hurt by the US import surcharge. The measures are to be announced at the resumption of Parliament on Tuesday. Ottawa hopes to cushion the impact of the surcharge on the economy's recovery. No details are available, but the measure will probably include tax relief.

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CHILE-USSR: Chilean Army representatives have claimed success for their mission to explore broader contacts with the Soviet military.

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The mission was cordially received by senior Soviet military leaders, [redacted] [redacted]

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[redacted] An agreement apparently was reached to supply unspecified military equipment to Chile, [redacted]

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A purchase of any significant quantity of arms from the USSR would indicate that President Allende's desire to broaden relations with Communist countries has prevailed over objections from the Chilean military. Many officers protest that conversion from Western weapons to Communist-made arms would be prohibitively complicated in terms of maintenance and training. The army chief of staff reportedly said that Allende's expression of interest in posting an attaché of general rank to Moscow was viewed by many high-ranking officers as unjustified by the present minimal military relations between the two countries.

Consistent with Moscow's cautious policy toward the Allende government, the Soviets are not known to have made the blanket offers of military assistance that typically follow the establishment of "progressive" governments in underdeveloped countries. The same delegation that visited Moscow also stopped in Eastern Europe, but reportedly these countries--more interested in the commercial aspects of military sales--were not responsive to Chilean requests.

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BOLIVIA: President Banzer could soon face growing problems in keeping his National Popular Front regime intact.

Dissatisfaction with the governing alliance has surfaced among Nationalist Revolutionary Party (MNR) militants. Party head Victor Paz Estenssoro has publicly called for loyalty to the military and the Bolivian Socialist Falange (FSB), but Paz has also declared that he is the caudillo of Bolivia.

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25X1 [REDACTED] The party has also rebuffed demands from its left wing that it leave the coalition government, and Paz supporters may act to prevent the return of still-exiled left-wing leader Hernan Siles.

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[REDACTED] Armed Forces Commander Iriarte, who covets the presidency, is already lining up support from dissident MNR elements in preparation for a bid for power.

A "Revolutionary Resistance Front," claiming to represent most of the extreme left, has called for an armed struggle, and the regime has begun to prepare itself to counter an expected urban terrorist campaign. A crackdown currently under way against the violence-oriented National Liberation Army (ELN) is likely to be used to deal with extreme leftists whether or not they actually have ELN connections.

Banzer has now declared that actions of the Torres regime deemed to have been "demagogic" will be reviewed, but that the nationalization of the US-owned Bolivian Gulf Oil Company in 1969 is irreversible. The new Bolivian Government has asked for \$20 million in US emergency grant assistance to stimulate the economy and help the regime through its first "critical" 100 days.

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URUGUAY: The presidential campaign is prompting an uncommon level of violence and political extremism that is likely to persist through the November elections.

Several violent incidents in the last week dramatize what is becoming an increasingly familiar scenario between contending leftist and government forces. On Wednesday, a clash between student demonstrators and police erupted into a melee that left one student dead and two policemen injured. Bombings, presumably by youth groups, persisted that night, with leftist facilities increasingly the target of anti-Communist organizations formed in response to the terrorist violence. In apparent retaliation for the student death, two police were machine-gunned on Thursday, probably by Tupamaros.

In addition, a labor union sympathetic to the Tupamaros defied the government's restrictions on strikes and demonstrations and provoked additional violence that left one person wounded. Pro-Tupamaro labor affiliates, as opposed to the softer-lining Communist-allied unions that dominate the major federation, seem likely to continue their agitation.

In the presidential campaign, President Pacheco, who recently confirmed that he will seek re-election in November via a constitutional amendment permitting a second term, is basing his primary appeal on his no-nonsense law-and-order reputation. The leftist coalition Frente Amplio, dominated by the Communists, is attempting to mount a major challenge to the established parties by decrying the economic and political failure of their policies and promising a new leftist approach. The Tupamaros, meanwhile, continue to play both ends against the middle, supporting the Frente political challenge while maintaining a high level of violence designed to prompt a government overreaction that might lead to cancellation of the elections.

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The majority of the factions backing the Frente recognize that while incidents emphasizing Uruguay's "crisis" may boost their fresh-approach sloganeering, their political strategy dictates staying within the bounds established by the government. Previously the Communists were generally able to control student and labor dissidence, but radical, pro-Tupamaro sectors have increased their strength and the Tupamaro strategy is served by continuing violence.

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MALAGASY REPUBLIC: The national congress of the ruling Social Democratic Party (PSD), scheduled to convene next week, will probably be carefully rigged to result in the renomination of President Tsiranana.

In recent months Tsiranana has virtually ensured his uncontested renomination by taking firm control of the party apparatus after engineering the removal of the PSD's executive bureau and by ridding the party of many supporters of ex - vice president Resampa. Most political speculation about the congress centers on the selection of a new secretary general to fill the vacancy left by the discredited Resampa. So far there is no indication of who will be named to the post.

Tsiranana's renomination will mean his almost certain re-election to the presidency. The government's image has been tarnished during the past year by a bloody uprising in the southern part of the island and by the detention of Resampa for allegedly plotting against the government. Tsiranana, however, has recently made an effort to soften the effects of these events with a campaign of countrywide personal appearances. Opposition to the PSD will be modest at best; in last year's legislative election the main opposition party, the Congress Party for the Independence of Madagascar, managed to win only three of 107 seats with the PSD sweeping the rest.

Tsiranana now may have more in mind than just another seven-year term. The President might be planning to dissolve the National Assembly, to oversee the selection of still more compliant deputies, and to introduce a constitutional amendment permitting his election to the presidency for life. Tsiranana was apparently impressed by the election of President Banda of Malawi to a life-long term last July. It has also been rumored that if there is no

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opposition to his renomination, Tsiranana may call for immediate elections, instead of waiting until early 1972 as scheduled. Such a move would be unconstitutional, but this probably would not dissuade the mercurial Tsiranana, who advanced the date of the 1965 presidential elections.

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NOTE

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[redacted] there was an unsuccessful attempt last week to assassinate President and Revolutionary Command Council (RCC) Chairman Bakr. Baghdad has reported only that Bakr was temporarily hospitalized for a "minor indisposition." Saddam Tikriti, Bakr's deputy in the RCC, is widely reported as the real power in the country and as vying with Bakr and others for ultimate control. [redacted]

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